

**REPORT OF  
FINANCIAL EXAMINATION**

**DRAKE-BEEMONT MUTUAL  
INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2004**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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November 15, 2005  
Owensville, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**DRAKE-BEEMONT MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 110 North First Street, Owensville, Missouri, telephone number (573) 437-4625. This examination began on November 14, 2005, and was concluded on November 15, 2005, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

#### **Accounts and Records**

**Comment:** The Board should ensure that all liabilities are included in the annual statement. Losses unpaid, ceded reinsurance payable and accounts payable were not included in the annual statement. These were all obligations that could have been reasonably estimated and liabilities established.

**Company Response:** The Company disagrees with the assertion that the cash basis accounting is inappropriate for annual statement reporting purposes.

**Current Findings:** The Company currently presents its financial statements in the annual statement on a modified cash basis. The current overall presentation of the financial statements in the annual statement appears to be appropriate.

## **HISTORY**

### **General**

Drake-Beemont Mutual Insurance Company was organized on July 29, 1911, as Drake-Beemont Mutual Aid Society. On November 1, 1984, the Company was incorporated in the State of Missouri.

The Company has a Certificate of Authority dated December 1, 1988, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

## **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the second Tuesday in March, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the Members. Ten members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of nine members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and each member receives compensation of \$20 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Charles H. Gross 1863 Highway 50 Owensville, Missouri	Retired	2003-2006
Kaye Schneider P.O. Box 32 Mt. Sterling, Missouri	Store Manager	2002-2005
Lyle L. Scheible 4864 Highway VV Berger, Missouri	Farmer	2003-2006
Howard H. Schutt 4226 Highway Z Berger, Missouri	Business Owner	2002-2005
Nolan Hesemann 3034 Highway P Owensville, Missouri	Farmer	2003-2006
Ardene Schoening 211 Highway H Hermann, Missouri	Retired	2002-2005

Rudolph Ridenhour 412 North Belle Avenue Belle, Missouri	Retired	2004-2007
Harold Roethemeyer 7891 Beemont School Gerald, Missouri	Retired	2004-2007
William S. Helterbrand 19505 State Route B St. James, Missouri	Cartographer	2004-2007

The Board of Directors appoints for a term of one year, a President, Vice-President, Secretary, and Treasurer.

The officers of the Company serving at December 31, 2004, were as follows:

Charles H. Gross	President
Kaye Schneider	Vice-President
Lyle L. Scheible	Secretary
Howard H. Schutt	Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. The Articles of Incorporation were not amended during the examination period. The Bylaws were amended on June 6, 2004, to make minor terminology changes and to add Company policies regarding late fees and returned check fees.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$1,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company's agents are responsible for obtaining their own errors and omissions liability coverage.

The Company carries property insurance coverage on its home office equipment, as well as business liability and workers compensation insurance.

The insurance coverage appears adequate.

## **EMPLOYEE BENEFITS**

The Company has four full-time and two part-time employees. Full-time employees receive eight paid personal days and eight paid holidays per year and five to ten vacation days, depending upon years of service, per year. The full-time employees are also eligible to participate in a group health plan, of which 80% of the premiums are paid by the Company. The Company appears to have made adequate provisions for these benefits in the financial statements.

## **INSURANCE PRODUCTS AND RELATED PRACTICES**

### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual

Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverages through an organizational agreement with its reinsurer. The Company's policies are sold by seven licensed producers, who receive an 18% commission.

### **Policy Forms and Underwriting Practices**

The Company uses Grinnell policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and adjusting services are performed by employees of the Company.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$1,154,090	\$306,171	\$1,460,493	\$522,321	\$21,978	\$44,157	\$44,257
2003	865,193	32,967	1,113,519	464,886	26,576	(5,967)	15,942
2002	841,045	50,353	870,953	539,604	35,414	20,037	51,084
2001	817,783	106,652	734,981	360,666	45,329	(27,285)	20,963
2000	816,261	104,370	689,737	173,794	37,487	96,899	137,027

At year-end 2004, 3,272 policies were in force.

### **REINSURANCE**

#### **General**

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:



	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$689,737	\$734,981	\$870,953	\$1,113,519	\$1,460,493
Assumed	0	0	0	0	0
Ceded	<u>(192,379)</u>	<u>(206,414)</u>	<u>(206,774)</u>	<u>(266,497)</u>	<u>(368,659)</u>
Net	<u>\$497,358</u>	<u>\$528,567</u>	<u>\$664,179</u>	<u>\$847,022</u>	<u>\$1,091,834</u>

### **Assumed**

The Company does not reinsure other companies.

### **Ceded**

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess section of the agreement, the Company retains \$75,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property and livestock, poultry and horse operations and \$750,000 for farm outbuildings. Annual premium paid to the reinsurer for 2004 was \$.3595 for fire and \$.0598 for wind per \$1,000 of adjusted gross fire risks in force.

Under the aggregate excess section of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2004 was \$659,286 and the annual premium paid was \$.3034 per \$1,000 of adjusted gross fire risks in force.

Under the facultative reinsurance section of the agreement the Company may cede risks to the reinsurer that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The Company has an organizational agreement with the reinsurer, under which the Company markets homeowner and farmowner liability products written by the reinsurer. The Company receives a 20% commission on these policies.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

### **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a modified cash basis. An outside accountant, Thomas Metcalf, CPA, compiles the Company's financial statements, including the Annual Statement.

### **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2004**

Bonds	\$ 243,369
Cash on Deposit (Note 1)	598,978
Other Investments (Note 1)	55,000
Reinsurance Recoverables on Unpaid Losses	249,776
Interest Due and Accrued	833
Asset Write-Ins	6,134
	-----
Total Assets	\$ 1,154,090
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2004**

Losses Unpaid	\$ 297,893
Liability Write-Ins	8,278
	-----
Total Liabilities	\$ 306,171
	-----
Guaranty Fund (Note 2)	\$ 150,000
Other Surplus (Note 2)	697,919
	-----
Total Surplus	\$ 847,919
	-----
Total Liabilities and Surplus	\$ 1,154,090
	=====

**STATEMENT OF INCOME**  
**December 31, 2003**

Net Premium (Note 3)	\$ 1,091,834
Net Losses Incurred	(498,905)
Other Underwriting Expenses (Note 3)	(548,772)
	-----
Net Underwriting Income (Loss)	\$ 44,157
	-----
Investment Income	\$ 21,978
Other Income	35,343
	-----
Gross Income (Loss)	\$ 101,478
Federal Income Tax	57,221
	-----
Net Income (Loss)	\$ 44,257
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2004**

Policyholders' Surplus, December 31, 2003	\$ 851,779
Net Income (Loss)	44,257
Cash to Accrual Basis Adjustment – Net Losses Unpaid (Note 4)	(48,117)
	-----
Policyholders' Surplus, December 31, 2004	\$ 847,919
	=====

## **NOTES TO THE FINANCIAL STATEMENTS**

### **Note 1 – Cash on Deposit/Other Investments**

The Company reported certificates of deposit with a balance of \$598,987 as “Other Investments.” The balance of \$598,987 was reclassified to “Cash on Deposit.” The reclassification resulted in a zero net effect to policyholder surplus.

### **Note 2 – Guaranty Fund/Other Surplus**

The Company failed to report a guaranty fund balance associated with the liability coverage for which it is authorized per its certificate of authority. The result was an understatement of the guaranty fund of \$50,000. The guaranty fund balance was increased by \$50,000, and other surplus was decreased by \$50,000 per the examination. The reclassification resulted in a zero net effect to policyholder surplus.

### **Note 3 – Net Premium/Other Underwriting Expenses**

The Company included the cost of reinsurance of \$368,659 in other underwriting expenses, rather than net premiums. Net premiums were decreased by \$368,659, and other underwriting expenses were increased by \$368,659 to reflect the examination change. The reclassification resulted in a zero net effect to policyholder surplus.

### **Note 4 – Cash to Accrual Basis Adjustment – Net Losses Unpaid**

The Company accrued for losses unpaid of \$297,893 and reinsurance recoverable on unpaid losses of \$249,776 on Page 1 of the Annual Statement. However, the income statement was prepared on a cash basis, and no provision was made for the accruals on Page 4 of the Annual Statement. The adjustment to reconcile the policyholder surplus balances reported on Page 1 and Page 4 of the Annual Statement is equal to the net unpaid losses (losses unpaid less reinsurance recoverable on unpaid losses), or \$48,117.

### EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2004			\$ 847,919
	Increase in Surplus	Decrease in Surplus	
Cash on Deposit	\$ 598,987	\$ (0)	
Other Investments	0	(598,987)	
Guaranty Fund	50,000	(0)	
Other Surplus	0	(50,000)	
	-----	-----	
Total Change	<u>\$ 648,987</u>	<u>\$ (648,987)</u>	<u>0</u>
Total Policyholder's Surplus Per Examination, December 31, 2004			<u>\$ 847,919</u>

### GENERAL COMMENTS AND RECOMMENDATIONS

None.

### SUBSEQUENT EVENTS

On April 12, 2005, the Board of Directors amended the Bylaws of the Company to add the position of Investment Officer. The office is responsible for the development, implementation and maintenance of the investment portfolio of the Company. Director Harold Roethemeyer was appointed to fill the Investment Officer position.

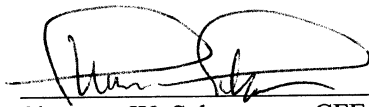
## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Drake-Beemont Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 1<sup>st</sup> day of December 2005.

My commission expires:

May 1, 2008

  
Notary Public

DEBBIE J. NOLKE  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Boone  
My Commission Expires May 1, 2008

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA  
Audit Manager – Kansas City  
Missouri Department of Insurance